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Economic Conditions  
Governmental Finance  
United States Securities

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### General Business Situation

**T**HE general business situation has not shown in the past month the pronounced change to greater activity that had been looked for in some quarters, and this has rather strengthened the sentiment that business is in a period of recession, the end of which is not yet in sight. Fall trade is expected to be under full headway in October, and if recovery to anything like last Spring's optimism was to take place before next Spring, it should have appeared last month. As a matter of fact October was a disappointment to the optimists.

On the other hand, the influence of October upon individual opinion depends very much upon what has been expected and what is one's standard of good and promising times. The volume of business was large, consumption continued on a great scale, and although reports indicate that the labor situation is not strained, as it was at the opening of outdoor activities last Spring, they seldom mention unemployment. The disappointment has been in the fact that October did not give a new impetus to business and overcome the disposition manifest since last May, for traders to confine purchases to immediate needs. This general disposition is a symptom of misgiving about the future, and it is infectious.

#### The Conservative Reaction

Wherein does the situation differ from that existing last Spring? Throughout 1922 the country was gradually working its way out of the slough of despair in which it was floundering in 1921. Confidence was slowly recovering, as the prices of farm staples improved and the revival of construction supplied work for the unemployed. By the Spring of 1923 the opinion had become general that the country had come through the post war depression, seen the worst of low prices and actual losses, and was going to have a year of good business. Buying by dealers had been on a hand-to-mouth basis, stocks were low, and as buying increased prices stiffened; moreover as buying increased, unemployment disappeared, a scramble for labor developed, and wages rose, dealers were

stimulated to buy against increasing costs, with the result that a price movement developed which had such a strong resemblance to the 1920 boom that it alarmed the country.

Construction work had been the principal factor in the recovery, the basis for improvement in all the industries, and the rise of building costs was so great as to cause a prompt reaction. Many projects were abandoned, and the publicity given to this fact had much to do with a general reaction of sentiment. The boom spirit disappeared, and immediately talk began to be current about lower prices. It is natural that following any unusual spurt of buying and rising prices, when there is reason to believe that the crest has been passed, prices should react. There are always people holding for a rise who sell when they believe the rise has culminated. Moreover, after a period of buying in excess of normal, it is inevitable that there shall be a period in which buying is below normal.

After the price movement had turned downward there was no incentive to forward buying, and that situation has continued to this time, but production, consumption and railroad traffic have continued upon a scale that has been making new records all summer. Will this situation continue or are we really headed for a decline. The situation is mixed to such an extent that a satisfactory answer cannot be made without some discussion of the factors in it.

#### Unfavorable Factors

The business situation, as is well known, tends to move in cycles of increasing and diminishing activity, and once a start is made in either direction the movement tends to gather impetus. When the corner has been definitely turned after a period of depression, stocks are always low and price advances stimulate buying, while every worker whose name is taken from the list of the employed and added to a pay roll, signifies more buying power in the markets. Once the recovery is fairly under way it goes on until the structure gets topheavy and unbalanced, and some disturbance shakes it down. Once prices are

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started downward buyers hold off as long as they can, and every workman laid off represents a reduction of buying power and a lessened demand on the industries.

The spirit of aggressiveness and confidence that was lost last Spring has not been regained, and the present situation is in large part psychological. People are moved to act upon one policy or another by what they think, and the effect of their actions is the same whether their thinking is well ordered or not. The state of business is largely what the state of confidence and enterprise makes it, and as already said, this state of mind is infectious; if most people think business is going to be poor it probably will not be very good.

#### Industrial Costs

This is not to say that the present situation is altogether the result of misguided thinking. There are unsatisfactory conditions.

The industrial situation, as we have pointed out frequently, is not well balanced, portions of the population having succeeded in holding or forcing up their compensation at the expense of others, thus lessening consumption by the latter. The abnormal situation as to construction work has minimized the effect of these unbalanced relations for the time being, but they are an element of weakness. The policy of the labor organizations in forcing wages upward at every opportunity, and then refusing to make concessions when adjustments are necessary, is a great handicap to industry. It deprives it of the flexibility that is required to maintain balanced relations. The industrial organization is a great co-operative organization, made up of many factors, independent in a degree, yet dependent upon each other. The efforts to control wages and prices arbitrarily has an effect like that which would result from binding the arms of a person attempting to walk a tight-rope. The labor policy is to allow industry to shut down rather than make concessions, and the effect is to create a scarcity of goods until a temporary and limited demand is created at a high cost, most of which is paid by the wage-earners themselves, followed by another period of depression and partial employment. It puts the business organization under strain, and produces spasmodic conditions. It is right and to be expected that wage-earners shall have a voice in fixing wages, and it is not of itself a serious matter that wage-earners are quick to demand higher wages when conditions are such that they can be paid. The free play of the law of supply and demand may be readily accepted. The harmful thing is the refusal to allow that free play when adjustments downward are necessary for the good of industry.

#### Non-Co-operative Spirit

During the period of government operation of the railroads, the shopmen who had been paid on a piecework basis, were changed to a time basis, and the cost of their work very much increased thereby. When the railroads were returned to their owners an effort was made to restore the piece-work system, upon a basis which would be advantageous to the best workers and encourage efficiency throughout the force. The New York Central put the piece-work system into effect, complaint was made and the Railroad Labor Board ordered the company to restore the time system. The officials had reason to believe that a large portion of the men preferred to be paid by what they did, and in support of an appeal for a rehearing on the case, they have recently taken a vote by the shopmen. The result was 4,000 votes for the piece-work plan and 10,000 for the time basis, with about 5,000 not voting. The final decision of the Labor Board has not been given, but the effect of the vote is not reassuring. The basis of all just compensation is service; evidently somebody must create value against every wage that is paid, and wherever it is practicable to relate the compensation of each worker directly to the service performed the plan surely is the correct one. The explanation of the decision of the shopmen must be found in the class feeling that is so assiduously cultivated.

Announcement has been made in the last few days that the garment trades of the country, including about 150,000 workers, are about to demand a five-day or forty hour week. Of course this means with no reduction of weekly pay. They already have the 44-hour week, and it is probable that most of the people who wear the garments made by these workers, and who ultimately pay their wages, have lower pay than the garment workers are now receiving. These demands and the support that is given them by the public are prompted no doubt by a belief that the employers do the paying and that nobody else is affected.

In the cotton goods industry after much agitation the wage-earners last Spring obtained a wage advance which restored one-half of the reduction of 22½ per cent which had been made from the highest wages of all time, those of 1920. This advance was forced in face of the fact that such staples in the cost of living as flour, meats and foodstuffs generally had fallen much below the level which had been the basis upon which the wages of 1920 were fixed. It is true that the cost of living to cotton-mill operatives has been increased by the high wages of garment workers, coal miners, railroad employes, the building trades, etc., etc., but notwithstanding this, so great has been the decline in farm products that

wage rates in the cotton mills are now higher in relation to the cost of living than in 1920. The cost of living, according to the calculation of the Department of Labor of the State of Massachusetts, one of the leading states in cotton goods manufacture, is now about 60 per cent above the level of 1913, while other authoritative calculations make the mill wages about 150 per cent higher. But that is not all of the story. Owing mainly to the ravages of the boll weevil but in part to these high operating costs in the mills, the prices of cotton goods have been forced so high that the demand for cloth has fallen off, and many of the mills are now running on part time. The largest producer of cotton goods in this country, the Amoskeag Company of Manchester, New Hampshire, has shut down its cotton goods department, and others are doing likewise, because they cannot sell the goods at present prices and dare not manufacture for stock. The operatives are now losing by idleness more than the increase of wages obtained last Spring, and their loss of purchasing power affects the demand for other goods and threatens the employment of other workers. This is the cumulative process by which depression spreads. Meanwhile people are going without clothing that they would like to buy.

Other examples might be given, but these will do to illustrate some of the unfavorable factors in the business situation of chief influence with those who look for declining business. Undoubtedly they are of such importance that they must be taken into account.

#### Favorable Factors

The favorable view of the situation considers that, subject to the influence of the unfavorable conditions named above, all the factors that were influential in bringing about the revival of industry in 1922 and last Spring are still effective. The edge may be off the demand for construction work in some places and in some lines, but it is certain that the country has not made good the deficit in houses or construction work of any kind resulting from the war-time restrictions. The fact that a great amount of work has been laid aside during the past season because of excessive costs is an assurance that there is much yet to be done. The building permit records of recent months show that much new work is being projected, and the reports that come from contractors and architects commonly agree that there is a large body of work in sight. Prices of material have been declining, which is significant either of increased production or declining demand, and probably due in part to each. The indications are that there will be little or no unemployment in the build-

ing trades next year, even though the present scale of wages is maintained, providing bonus payments are eliminated, which will be the case generally if projected work falls off.

From January 1 to October 1 the railroads placed in service 134,636 new freight cars and 2,963 locomotives, and have large orders for both in process of execution. Notwithstanding these additions there is authority for the statement that six leading companies are now negotiating for 85,000 freight cars and locomotive orders on a liberal scale are yet to be given. Hydro-electric development promises to be on a large scale, the high cost of coal being a stimulating factor.

The buying power of the wage-earning population at present is large and often referred to, but this is an uncertain factor, depending of course upon employment. This element is only partially self-sustaining. The fluctuations in prosperity are mainly due to fluctuations in the volume of construction work. This is an independent factor, dependent largely upon industrial conditions and the probable return upon capital invested. The buying power of the farming population is another important factor. It has been below normal since 1920, but is rising. Live stock is depressed, owing to great offerings on the markets, exceeding past records, but on the whole if the calculations of the Department of Agriculture may be accepted, the income of the farmers should be larger from the crop now harvested than from any since 1920.

The foreign trade situation is encouraging. Our total exports for the nine months ended with September were \$2,941,017,138, against \$2,736,731,692 in the corresponding months of last year. It is true that our imports in the same time have increased still more, i. e., from \$2,207,556,052 last year to \$2,905,602,609, but this has been mainly in raw materials and non-competitive goods, the demand for which has increased by reason of the revival of our industries and increased prosperity.

Although our exports of food-stuffs to Europe have dropped much below the figures of the war time, they have not fallen below the pre-war figures. Our exports of grain have fallen off in the present year, as a result of increased production in Europe, but in the nine months ended with September our total exports of meats have increased from 581,105,482 pounds in 1922 to 755,208,237 pounds in 1923. There is good basis for the opinion that if our wheat production was dropped to about what it was before the war, our surplus of agricultural products would not be troublesome, the boll-weevil having done much to relieve us of



such embarrassment as to cotton. There is a tendency for our exports to increase outside of Europe. We are furnishing a larger share of the imports of Latin America than before the war, and thus far in the present calendar year our exports to those countries have increased 33 per cent over 1922. If Europe does not buy our raw materials for conversion into goods to ship around the world, as in the past, we will manufacture and sell them ourselves. In short, we are adjusting ourselves to new conditions, and while recognizing the danger of getting upon a level of costs above competing countries, the fact remains that as yet we seem to be able to hold our own.

#### **The Credit Situation**

In nearly all discussions of the conditions having to do with the business cycle, economists have given first importance to the credit situation. The rising trend of activity and prices starts with an easy state of credit and culminates when the available supply is exhausted; then as prices begin to fall, the efforts of creditors to collect what is owing them, and the frantic rush of debtors to save something from their shrinking margins drives prices still lower. We have never had a serious depression in this country which began in an easy money market. It is not conceivable that the conditions which create a real crisis can develop without the pressure which results from an over extended credit situation. That there is still a great hang-over of indebtedness from the boom period is true, and it is an oppressive influence, particularly upon the agricultural districts, but it does not make a critical situation in any general sense. There is plenty of liquid capital to handle the business of the country and no probability of the kind of pressure that forces goods or securities on the markets and causes widespread demoralization.

#### **Summing Up**

It would appear from this review that the tangible factors of importance are in favor of the continuance of a high volume of production and trade. There is no question about there being an amount of construction work waiting to be done sufficient to keep the building trades busy. We have no reserve stocks of goods, have a great population with wants to be continuously supplied, and have demonstrated in the past year that we can be fairly prosperous under conditions which are not likely to grow worse. Our foreign trade is growing rather than declining. The credit situation is not a matter of concern.

On the other hand, we have the question whether the industrial situation has sufficient flexibility and freedom to make the cost adjustments that may be necessary to maintain

the balance all around and keep the wage-earning population employed. Can the adjustments as they prove to be necessary be made without serious disturbance to industry? This is a problem of industrial relations, and while it is a serious problem it is by no means a new one. We have had it with us for a long time; every country has it; why should we throw up our hands about it now?

There will continue to be profits in business for the individuals who know how to do business in the best way. The farmers in this country who are producing only six to ten bushels of wheat to the acre are having hard times competing with the farmers of Canada, who have produced this year according to the official estimate an average of 20.75 bushels to the acre, and the same rule governs in all business. There always will be the differential between the efficient producers and the marginal producer, no matter how general costs may rise.

In conclusion, while the policy of caution now being generally followed undoubtedly is advisable, there is nothing to indicate any sudden depression of values or falling off of consumption demands. The pessimistic views that are prevalent will affect business to the extent that they discourage enterprise, mainly in the line of construction work. If construction work falls off, so that unemployment actually results, it is probable that the necessary readjustments will soon be made.

#### **Sugar in 1923**

The sugar crop-year is considered in the trade as ending August 31. Grinding of cane produced in Cuba and other sources of our supply proceeds throughout the period from about the middle of December until the last of the following August, and not until this grinding is completed can the final figures of the year's supply be made up. The beet sugar crop in this country comes on the market much more rapidly, from about the 1st of November on.

Normally the United States does not obtain much sugar from outside of its own territories, except from Cuba. We have the domestic production from cane and beets, which in 1922 amounted to a little under 1,100,000 tons, and we admit duty free the production of Hawaii, the Philippines, Porto Rico and the Virgin Islands. After this, we draw our supply from Cuba, which has preferential treatment over other foreign producers by the reason of a reciprocity treaty. Normally, this gives us all we need, although other sugar comes here to be refined and exported. If there is any probability of our being obliged to import full duty sugar for consumption, of course the price is

directly affected, by the prospect of a higher duty as well as by reason of the shortage which is indicated.

#### A Sensational Year

In the past year the trade has been working on a narrow margin of supply, and the market has been sensitive. Prices have fluctuated sharply, and the situation has been made more sensational by the action of the Department of Justice in attempting to enjoin trading in contracts for future delivery on the New York Coffee and Sugar Exchange, also by attempts to organize a boycott among sugar consumers, all of which made news of an exciting character, and attracted attention to the sugar situation. It is probable that this unusual publicity accentuated the fluctuations. It is a question whether the agitation for a boycott, on the ground that sugar was being artificially advanced, did not increase rather than diminish buying for a time, although rising prices naturally diminish consumption.

The rise of prices during the year was accounted for in the trade by reports that the Cuban crop was falling below expectations and that the world's crop was likely to fall short of consumption demands at prevailing prices, but the agitators and boycotters claimed that the talk of shortage was all to camouflage a "corner" that was being run. The Department of Justice accepted this view, and attempted to interfere with trading, but the three judges of the United States Circuit Court agreed in disapproving of the action.

At this time, with the crop-year ended, the figures of the Cuban crop no longer in controversy, and stocks reduced nearly to the minimum, it is worth while to review the situation.

#### The Rise of Prices

The calendar year began with practically no raw Cuban sugars in store, and with incoming cargoes quoted at 5.53 cents per pound, delivered in New York, duty paid. At this time the two best known authorities in Cuba, Guma Mejer and Himely, estimated the Cuban crop at 4,193,500 tons and 4,102,857 tons respectively. In the latter part of January reports began to be current that the cane was not yielding well, and the price began to rise. Early in February the Department of Commerce gave out a report on sugar production and consumption in the world in 1922 showing that consumption had exceeded production, and that stocks at the beginning of 1923 were lower than at the beginning of 1922. It also showed that consumption in the United States in the crop-year 1921-22 was 5,180,000 tons, against 4,446,000 tons in the preceding year, the largest consumption in any year to that time. These figures startled the trade, and

the price of Cuban raws jumped to 7.28 per pound duty paid New York.

Then the excitement began. The Department of Commerce were criticised for playing the game of the sugar "speculators," although nobody has shown to this day that anything was wrong with its statistics. The estimate of the Cuban expert, Guma Mejer, upon the Cuban crop, of 4,193,500 tons, was reduced on February 13 to 3,800,000 tons and on April 25 to 3,670,000 tons. Meanwhile the Department of Justice was bringing its suit and the boycott campaign was on, both based upon the theory that the rising prices were the result of manipulation.

#### Cuban Protests

The growers of sugar naturally were pleased to see prices going up. They were aware that the yield was falling short of expectations and like the growers of cotton and wheat in this country they were glad to be compensated by higher prices. The action of the Department of Justice aroused indignation in Cuba, where all business had been greatly depressed during the previous year by the unremunerative prices of sugar. Many planters had been ruined and many more were holding on by narrow margins, with their fate depending upon price recovery in 1923. All kinds of business in Cuba depends upon sugar, and the utmost interest was felt in the attempts of the United States Government to depress the market for this commodity, while at the same time all sorts of plans were being proposed for boosting the price of cotton and wheat, two commodities which the Cuban people buy from the United States.

#### Position of Refiners

The Cuban sugar is sold in a raw state to refiners in this country, who refine and sell it to the trade. The refiners, whose position was made very difficult by the agitation and price uncertainty arising from it, endeavored to quiet the excitement. They gave it as their opinion that there would be sugar enough to supply the country's needs at fair prices, provided consumers and dealers bought in a normal way. They were able to show that they were not speculating in sugar or carrying unusual stocks. Such stocks as existed were mainly in the raw state and in Cuba, and the records showed that sugar was moving from the island at a normal rate. The crop of cane must be ground before it can be shipped, and, as stated above, the grinding is a process that is not completed until August of the year following that in which the cane is grown. There was nothing abnormal in the movement of the Cuban crop in 1923.

The peak of prices was reached on April 27, when the price of Cuban raw delivered in New York, duty paid, was 8.41 cents per pound, and refined sold at 9.80 cents less two per cent.

### The Midsummer Slump

At this point the trade became timid, remembering the heavy losses of two years earlier, buying fell off, dealers working their stocks down. The same sentiment prevailed and the same policy was being followed at that time in other lines, signifying a general reaction from the rising prices of the early Spring. At the same time exports from Cuba to Great Britain fell off, and there began to be talk of possible shipments from Java and elsewhere to this country, as in 1920. The idea of a repetition of the conditions of 1920 was enough to dampen the market. Prices began to go off, and dealers continued to buy on the hand-to-mouth policy through the Summer, until on August 16 the low point was touched, at 5.78 in New York, including duty. By this time stocks were so low that buying was imperative, and as it revived prices rose until on September 27 they touched 7.78 cents per pound duty paid New York. At this writing the quotation for raw Cubas, duty paid, is 7.28 cents and for refined, 9.15 cents per pound. The margin between raw sugar and refined throughout the year has ranged from 1.30 to 1.60 cents.

Including raws in Cuba and refined in the United States, the carry-over of sugar into the new crop year will be very small.

### Last Year and This

The consumption of sugar in the United States in the crop year 1922-23 is estimated at 4,850,000 tons, against 5,180,000 tons in the previous year. The actual production in Cuba turned out to be 3,601,605 tons. The exports of sugar from Cuba to Great Britain during this year have been about 350,000 tons against 667,000 tons in the previous year. If the consumption of this country had been as much as in the previous year, or if the Cuban exports to Great Britain had been as much as in the previous year, there would not have been Cuban sugar enough to meet the demands of this country, and prices in the later months of the year doubtless would have been much higher than they were. Undoubtedly the high prices in the Spring affected both of these conditions. If they had not been higher in the Spring they would have been higher in the Fall.

If it had been known in January that the Cuban crop, instead of amounting to over 4,100,000 tons as then estimated, would be only 3,601,000 tons, and that consumption in this country and British takings would fall off, the fluctuations in price would have been less extreme. But the trade learned these conditions only as they developed throughout the year; it was working in the dark, and harassed by uninformed agitators who were insisting

that the talk of shortage was all fiction, and by the ill-advised action of the government, which took counsel of the agitators instead of the trade. Disturbances of this kind, like all elements of uncertainty in the business situation, increase the hazards of doing business, and tend inevitably to increase the margins necessary to business operations.

### Price Fluctuations Aid Distribution

One of the things that many people seem unable to comprehend is that it is legitimate and necessary that prices shall rise in case of a scarcity and fall in case of abundant supplies. This is the process by which supply and demand are brought into equilibrium. It is only by falling prices that consumption can be increased to absorb a large supply, and only by rising prices that economies in use are effected and consumption shifted to substitutes, thus making a short supply hold out until replenishment is possible. Prices are right, not when everybody is satisfied with them, which never happens, but when demand and supply meet and balance each other.

### Sugar vs. Wheat

It is an interesting fact that the Department of Justice attacked the practice of trading in futures in the case of sugar as a means of preventing a rise of prices, while the Farmers Bloc has been attacking the same practice in the case of wheat on the ground that it was responsible for low prices. The truth is that a free market does nothing but afford facilities for buyers and sellers to meet and do business. Whether prices go up or down depends upon the preponderance of opinion one way or the other. Greater facilities for trading mean a larger volume of trade in this public manner and a broader market, with less opportunity for manipulation and with prices less subject to the influence of a few traders than in a restricted and limited market. The interests of producers and consumers are safer in a competitive market, readily available to everybody and with every trade recorded and published, than if agreements may be entered into only in a private manner.

The assistant attorney general in charge of the prosecution of the sugar case has defended the action with the singular argument that "the channels of trade must be kept open." His way of keeping a channel open apparently, is by closing it, except to people who will buy or sell subject to the approval of a representative of the Attorney-General, who is supposed to know whether prices ought to go up or down. Presumably, also, approval will depend upon whether the commodity is sugar or wheat.



### The Argument Against Trading in Futures

The argument in behalf of government interference with trading in futures is that much of this trading is purely "speculative" in the sense that the traders have no intention of either delivering or receiving the actual commodities. The answer to this is, first, that there is no possible way of determining at the time a contract is entered upon whether the parties intend to stand upon it to fulfillment or not; in other words, there is no way of distinguishing between so-called bona fide and so-called speculative trading, and it is a poor remedy to abolish both; second, that every contract is in fact bona fide, protected by guaranties and cancelled only by a subsequent contract of opposite effect. The intent of a trader makes no difference with the economic effects of his purchases or sales. Moreover, it is entirely legitimate for a trader to close out a future contract before its maturity, either because of changes in the market situation or because he has changed his mind. There is no reason to suppose that the public is unfavorably affected by the exercise of such individual freedom; on the contrary, it is probable that the consensus of opinion as thus reflected in a free and broad market is nearer right than the opinion of any small group, even if it be an official regulating body, is likely to be.

### Service of Speculation

It is not a sound argument against trading in futures on the organized exchanges that such trading is participated in by many persons who do not expect to receive or deliver the actual commodities specified in the contracts. Warehousing and distribution are functions distinct from that of carrying a commodity from one stage of the marketing process to another, which always involves the risk of price changes. It is legitimate to buy a commodity at one season of the year for the purpose of selling later at a higher price, or to enter into a contract to deliver a commodity at a future date at a price lower than is ruling when the contract is made, likewise in the expectation of making a profit. The justification for such operations is the justification upon which all business must rest, to-wit: that it serves the public convenience and welfare. Such operations tend on the whole to stabilize prices and to prevent manipulation, rather than, as alleged by casual observers, to cause fluctuations and favor manipulation, particularly when as in the case of wheat and cotton great quantities come on the markets rapidly and must be distributed over the year.

### Changes of Ownership No Sign of Profits

Contrary to a common belief, the fact that a given quantity of a commodity may change hands many times on the way from the pro-

ducer to the consumer does not signify that every dealer makes a profit on it; or that the cost to the consumer is increased. It is possible that every dealer may lose money on it. Prices at any given time are not dependent upon what things have cost, but upon the market conditions at the time. The fact that a dealer has paid a given price does not enable him to get that price or a higher one, as every dealer has learned to his sorrow. And so the price to a consumer is not affected by the number of middlemen who have handled a particular shipment, or what they have paid for it. If there is a loss, it is the same whether one middleman or a dozen bear it, and if there is a margin of profit it is the same in either case. Of course efficient methods of distribution will reduce costs and selling prices, but neither law-making bodies, Attorney-Generals nor courts can increase the business man's eagerness to buy as close to the source as he can when there is any saving in doing so.

### Ignorant Speculation

There is one element of truth in the allegations against the system of trading in futures, and that is that many persons trade who have not the qualifications to do so intelligently and whose operations therefore instead of contributing to make the market reflect actual conditions, tend to confuse the situation. Unquestionably, there is a great amount of uninformed speculation, which is not only harmful to the speculators but to the public. But there are people in all kinds of business whose operations are neither profitable to themselves nor advantageous to the public. It will not be claimed that any line of business, taken as a whole, is conducted with ideal proficiency, nor is it practicable as a general policy to set up standards of proficiency before permitting persons to do business. It is scarcely practicable to hold an official examination to determine whether an individual should be allowed to buy and sell wheat on his own account. If he goes wrong in his operations he probably will be punished more severely than any court of justice would think of penalizing him, and whatever injury results to the public must be accepted as incidental to the system of individual liberty which on the whole we believe in, but which we are well aware involves some inconvenience and cost.

### Branch Banks

The Secretary of the Treasury, at the instance of the Comptroller of the Currency, recently solicited of the Attorney General of the United States a request for his opinion upon the right of national banks, under the existing statutes to operate branches, the in-

quiry being directed specifically to two points, stated as follows:

(1) Assuming that a national banking association is without power to establish and maintain a branch bank for carrying on a general banking business, has it the corporate power to open and operate an office or offices at a place or places other than its banking house, for the performance of such routine services as the collection of deposits and cashing of checks for its customers?

(2) If a national banking association has the corporate power to open and operate such an office or offices, must they be located within the city limits of the place designated in the organization certificate of the association as the place where its operations of discount and deposit would be carried on?

The Attorney General, responding, quotes section 5190 of the revised statutes, which provides that "the usual business of such national banking associations shall be transacted at an office or banking house located in the place specified in its organization certificate," and holds that this "refers to the city or town in which the bank is located, and not to the particular place within the city."

He says, after further review of the statutes:

In my opinion, a national banking association may establish in the city or place designated in its certificate of organization an office or offices for the transaction of business of a routine character, which does not require the exercise of discretion, and which may be legally transacted by the bank itself. It may not, however, establish a branch bank to do a general banking business such as is usually done by national banks. The establishment of such a branch would be illegal, and subject the offending bank to the forfeiture of its charter.

Summing up his conclusions, the Attorney General says:

Answering your specific questions I have the honor to advise you as follows:

First: National banking associations have the power to open and operate offices at places other than their banking-houses, within the place specified in their organization certificate, for the performance of such routine services as the receipt of deposits and the cashing of checks for their customers.

Second: National banking associations have no authority to open offices for the purpose of receiving deposits, paying checks, etc., outside of the limits of the city or place designated in the organization certificate as the place of its operations of discount and deposit.

The operation of such branch offices must be under regulations adopted by the Comptroller of the Currency.

There are several phases of the branch bank question, and one, and possibly more, of them will be brought before the Supreme Court of the United States in the case of the First National Bank of St. Louis vs. the State of Missouri, which is set for trial, November 9. The State of Missouri prohibits branch banking within its borders by statute, and the contending bank claims that the State has no jurisdiction over national banks. The States of Wisconsin, Minnesota, Iowa, Indiana and Illinois have applied for permission to file arguments in the case, and the Government of the United States, through the Solicitor-General, has been granted permission to intervene.

#### Fair Play for National Banks

The situation as to national banks obviously is quite different in states where banks operating under state charters are permitted to have branches from what it is in states where such branches are not permitted. In the former case national banks are at a disadvantage in competition with state banks unless they may follow the same practice, and in large cities this becomes a serious handicap, and is resulting in the transfer of numerous important institutions from the national to state systems. In a number of cities the state institutions by this means have obtained a pronounced ascendancy. In Cleveland, for instance, the assets of the state institutions now aggregate \$759,100,000 while those of the remaining national banks aggregate \$95,229,000. In Detroit the figures are for state institutions, \$492,722,633; for national banks, \$163,132,842. The national banks are the backbone of the Federal Reserve system, and it is not desirable that the national banking system shall lose its position in the principal cities of the country. There are many reasons why the national system should not be permitted to decay or diminish into an insignificant position.

Under the ruling of the Attorney General the state institutions are not threatened with branch office competition outside of the cities or towns in which national banks are located, and there is no agitation in favor of extending the branch office privilege beyond that. So far as the national banks of New York City are concerned, they do not favor any extension of the branch banking privileges.

Neither the ruling of the Attorney General nor the litigation now pending has any bearing upon the original provision in the national bank act (Section 3155 revised statutes) under which branches previously maintained by a state bank under the authority of state law may be continued in the event of consolidation with a national bank. These branches continue to have the full authority that they had before the consolidation. Under this authority the National City Bank of New York is operating three branches in the City of New York.

#### The Coal Industry

The United States Coal Commission has finished its work and passed out of existence by the conditions of the act of Congress creating it, about one year ago. It was intended to be a fact-finding body which would put the Congress and the public in possession of the information necessary to understand the complicated conditions of the industry, and know how to deal with such a situation as confronted the country in 1922, when mining was suspended completely in the anthracite field and



to the extent of one-half or more in the bituminous fields for a period of 163 days. That conditions in the industry justified the expenditure for the investigation hardly can be questioned, for the possibility of a general coal strike presents a problem of the utmost gravity. It raises a question that is fundamental in social life, to-wit: whether in matters that are vital to the welfare of the community the latter has a right at last to intervene in a controversy between a group of employers and a group of employees; and determine conditions of settlement.

It was not foreseen when the Commission was appointed that the country would face another strike within a year, and the report was not available in time to be any real factor in the settlement of this year's dispute. Indeed, the value of the report is not in any plan that it offers, or in any really new information, but rather as an authoritative statement of conditions in the industry.

#### The Late Controversy

The agreement between operators and miners in the anthracite field which was reached early in September, 1922, expired by its terms August 31, 1923, and negotiations for a new one were begun several months before that date. The miners demanded an increase of 20 per cent in the pay of contract miners, who work by the ton, and increases in the pay of day labor, together with other concessions, including the "check-off." The latter is an arrangement under which the employing company withholds from the pay of all employees any dues payable to the miners' union, and pays the same direct to the union treasury. In short, it makes the employing company an agency for collecting the union dues.

The operators made a number of concessions upon minor matters, but refused to concede the check-off or the principal wage advances; they proposed, however, to submit all matters to arbitration. The miners' representatives declined to arbitrate and a strike seemed imminent. The public was agitated, and as usual visited its criticism without much discrimination upon both parties, although it seems pertinent to ask what the public would like the operators to do in such a situation? Would it have them always grant the demands, which inevitably enter into the selling prices of coal?

At the suggestion of President Coolidge, Governor Pinchot, of Pennsylvania, as the chief executive of the State in which all the anthracite mines are located, undertook to negotiate a settlement. He disposed of the task by proposing an advance of ten per cent in the pay of contract miners and similar increases for the day men, which probably was as much

as they had any idea of winning when they formulated their demands. The operators protested, but under official pressure yielded, feeling that they could not assume the responsibility of refusing to supply coal after being relieved of responsibility for increasing the price.

Suggestions were made that coal dealers might absorb a part of the increased cost and the railroads a part, but there have been no changes in the methods of distribution or transportation which would warrant any expectations that such reductions might be had. Selling coal is a competitive business like selling anything else, and the margins are subject to the same conditions that apply to other business. The railroad charges upon anthracite were subjected to an inquiry by the Interstate Commerce Commission in 1915, and in view of the general state of railroad earnings since it is improbable that they are excessive. However, the Commission has announced that it will re-examine the situation, and it is worth noting that there is this difference between an examination of railroad rates and an examination of wages, to-wit: that only in the former case does authority exist to enforce the decision.

#### The Coal Commission's Report

The Coal Commission was well chosen with a view to securing an unbiased investigation and report and having it carry with the public. The field work was necessarily done by a large force of aids and investigators, and the detailed discussion of various features of the industry for the most part is by engineers and other expert assistants, who there is reason to believe were well chosen. The work had to be done in a limited time, and it has the defects inherent in every work in which a number of individuals whose views are more or less divergent are obliged to join. It is not very decisive in its findings or conclusions and not entirely harmonious in all its parts. It is, however, a comprehensive study, affording a vast amount of information about the industry. Much of the work is very ably done, but some of the opinions expressed are of a character to not only invite controversy but suggest that some compromise of individual opinions probably was necessary within the Commission in order to obtain a unanimous report.

#### The Anthracite Industry

A separate report is made upon the anthracite industry. In this the Commission lays much emphasis upon the proposition that the industry is "affected of a public interest," a legal term signifying that the public interest is of such dominating importance that the exercise of an exceptional degree of governmental authority over it is justified. As a mat-

ter of fact, all industry and business must be regarded as "affected of a public interest," in the ordinary sense that it should be conducted with a view to rendering the best possible service to the community. The question always is as to the extent to which governmental authority may be practically and affectively exercised. The agencies of public management or control are not so perfect that their effectiveness in every case can be always taken for granted. There will be, however, little dissent to the view that the coal industry is one in the regular and efficient operation of which the public has an exceptional interest, greater in the case of the bituminous than of the anthracite industry.

A long-continued suspension of the former would be much more serious than the latter, which in fact has but slight relation to the industrial life of the country.

The Commission seems to take very advanced ground in the declaration that—

The President of the United States should be authorized by act of Congress to declare that a national emergency exists whenever through failure of operators and miners in the anthracite industry to agree upon the terms of employment or for any other reason there is a suspension of mining operations, seriously interrupting the normal supply of anthracite fuel in interstate commerce; and to take over the operation of the mines and the transportation and distribution and marketing of the product, with full power to determine the wages to be paid to mine workers, the prices at which the coal shall be sold, and, subject to court review, the compensation to be paid to land and mine owners.

This declaration is made at the beginning of the report upon the anthracite industry, but in the final summing up of recommendations concerning that industry the Commission contents itself with saying:

The best approach to a remedy for the evils of the general strike will not, in our judgment, be found in an immediate resort to drastic prohibitory measures. Whatever artificial gap may have developed between employer and employee, they must work together or there can be no peace and no real efficiency. The weight of opinion among operators and union officials alike is that they themselves desire to fix the fundamental terms, upon which the industry shall operate. The most thoughtful and best advised among them express great confidence of their ability to do this in an orderly way. From our survey of the statesmanship that exists in the industry, it is believed that the operators and the union are equal to this task. If once they recognize the finality of the public insistence on continuous operation and address themselves single-mindedly to bring that object to pass. It will be necessary, however, for them to find means of bringing their best statesmanship to the front in connection with the general negotiations. They cannot perform this indispensable public duty unless they emancipate themselves from the atmosphere of militancy that too often characterizes their proceedings.

And by the time it had reached the place for summing up its conclusions upon the bituminous industry it was ready to make this declaration:

34. We recommend against compulsory arbitration as a means of preventing a national strike, because we do not believe in discretion-made law in

either the industrial or political fields, and because there is no way to enforce a compulsory award which does not involve enforced operation or enforced labor.

#### The Commission Reconsiders

In short, the Commission does not stand up to its early pronouncement, and in this we are disposed to think it shows wisdom, even though in principle that declaration may be agreed to be sound. It does not stand upon any question of property rights, and we would not have it do so. It reconsiders for the practical reason that it is doubtful whether public opinion would sustain the public authority in an attempt to make men work against their will, and whether any good would come from the attempt. At last all laws depend for their usefulness upon public approval and sympathy. A very strong case can be made in behalf of the rights of the public to uninterrupted service in such industries as transportation and coal-mining. It would involve no surrender of sacred individual rights to require, as a condition of employment in railroading or coal-mining, that the right to strike be waived, upon condition that public authorities would supervise wage rates, thereby protecting employes from unfair treatment by employers, at the same time allowing each individual freedom to retire singly from the service at will. It is absurd to call such a condition slavery; it would be simply applying a principle for the protection of the common welfare that have been applied to the railroad companies for a long time. Until public opinion clearly favors it, however, such legislation is undesirable, and it will be far better to have organized labor recognize its obligations in this respect, without efforts at coercion. This, presumably, is the view of the Commission, notwithstanding the bold declaration in its first report.

#### Broader Than a Class Question

Nobody disputes nowadays that the people rule, and the people who work for wages constitute a majority. The responsibility for social order and social progress rests upon them, and if they use their power unwisely they and their children will be the chief sufferers. As yet organized labor is so dominated by the idea of a class conflict, with the employers on one side and the wage-earners on the other, that it overlooks other conditions of more importance. It fails to see that there may be injustice in the relations between workers in the various branches of industry to each other, as well as in the relations between employers and employed. The rise in the price of fuel reaches beyond the mine-owners and the employing class, and comes home at last to the entire body of people who work for wages. There is a fundamental injustice in a situation

in which a comparatively few workers who have found employment in certain industries of strategic importance like coal-mining and railroading have the power to name their own pay under a threat to throw all other working people out of employment and bring society to disaster. No class, however, has greater interest in the correct solution of this problem than the wage-earning class. The problem affects society as a whole.

#### Opposes Government Ownership or Price Fixing

The Commission does not recommend either taking over the coal properties by the Government or exercise of price-fixing policies, as permanent policies. The taking over by purchase or condemnation of all the bituminous properties would be a financial undertaking so stupendous as to be clearly impracticable, but the Commission expressly disapproves of the policy even for the anthracite properties.

#### The Monopoly Feature

It lays considerable emphasis upon the "monopoly" feature of the anthracite situation, using in one place the following language:

The fundamental evil in the anthracite industry is that of monopoly—the treatment of limited natural resources as if they were like other private property. Reliance on competition without supervision has resulted in persistence of a permanent level of high prices above which extortionate increases were made whenever a suspension of mining or other disturbances give rise to the phenomenon of premium coal. In the anthracite industry, we have secured stability—which is desirable—but it has been at high cost to the consumer and has made anthracite a luxury fuel.

This is a general statement and requires a reading of the account of facts given elsewhere to show just what it signifies, and there is room for a difference of opinion as to whether this language is justified.

As compared with the number of consumers of the product the number of owners undoubtedly is small, but this does not constitute a monopoly. Furthermore, the report does not supply proof that the anthracite industry enjoys the privileges of monopoly either in ability to fix prices as it pleases or to secure undue profits. A monopoly amounts to nothing unless the public is obliged to buy something at a price which the monopoly-owner is free to fix, and at a figure high enough to afford undue profits, and the owners of anthracite are not shown to be in that position. Anthracite is not the only fuel, and while it is preferred for some purposes, the producers are constantly under the influence of competition from bituminous coal and oil, tending to restrict its sale and compelling them to struggle to retain an adequate market. The price must be such as to allow quantity production. The report concedes all this, by saying:

The main remedy, however, against extortionate prices lies in the consumer himself. There are sub-

stitutes for hard coal and a readiness to resort to them in the ultimate and effective defense against an unreasonable price.

The "extortionate increases" which the Commission speaks of as resulting from a suspension of mining are not charged upon the large companies, i. e., the monopolists. The Commission makes special note of their efforts in times of scarcity to supply their customers at regular rates. It also says that excepting the war period, when there was a shortage of bituminous coal, there has been no scarcity of anthracite except as the result of a suspension of operations. The increases referred to, in recent years at least, have been directly related, therefore, to strikes, and have been chargeable to the small "independents" only. It appears that such power as the "monopoly" possesses has been exercised to mitigate the situation in emergencies. What it has done with prices at other times will be shown below.

#### Results of Consolidation

As to the number of producers, the report says that there are nine large companies formerly affiliated with the railroad companies, and something more than one hundred independents in all, although the number of these and percentage of output has steadily diminished. In 1895 the independents produced 45 per cent of the tonnage, but in 1921 they produced less than 25 per cent. The report, however, expresses the opinion that this consolidation of interests has been advantageous to the public, going so far as to say that—

The Commission is convinced that the public would benefit by increased production by the larger and lower cost companies, and that if adequate publicity could be given to costs and prices at the mines, to freight rates, and to costs of local distribution, the buyer of household anthracite would thereby gain some measure of protection against the demands of unscrupulous dealers.

Real benefits have flowed to the public from strongly financed companies, although these benefits were largely offset in earlier years by the illegal practices which the courts condemned. The anthracite mines have conserved the country's coal resources by steadily increasing the percentage of coal in the ground recovered and sent to market; they have economized in the capital employed by a closer adjustment of mine capacity to production and in man power by largely eliminating the cost of idle days for men as well as for plants, resulting in a corresponding improvement in the economic condition of the mine workers.

Upon the subject of conserving the coal deposits, briefly mentioned above, the report says:

The engineering staff of the Commission has carefully studied the subject of waste and has determined the proportion of the coal deposit which is lost in the processes of mining and preparation. It is gratifying to find that while forty years ago estimates of the percentage of recovery were 27 per cent to 40 per cent, and twenty years later the Roosevelt Commission predicted that with better mining methods and utilization of former waste material a 50 per cent recovery could be expected in the near future, the present study shows that this estimated higher recovery has been in fact exceeded, and that the prac-



tice of today in mining and preparing the coal for market yields an average recovery of about 81 per cent, the greater percentage of waste being in the Southern Field, where the steeply pitching beds of crushed coal place a natural limitation on recovery. It must be kept in mind, however, that this type of conservation engineering, which increases the percentage of recovery and adds to the expected life of the limited reserves of anthracite in the ground, may involve an increase in the cost of mining.

As usual where the question of consolidations and resulting economies are under public discussion, the arguments relate more to anticipated or imagined dangers than to evils actually present. Thus the report says:

The development of large and strong companies with centralized control may be a source of danger as well as of benefit. For example, the ability to stabilize prices that was used last winter by the larger companies to benefit the public contains also the inherent possibility of real danger.

It is safe to say that nine-tenths of the reasoning against large organizations is of this type, which sets up against tangible benefits vague misgivings about dangers which have not yet materialized, and which experience usually has shown are not real dangers at all, because economic considerations alone afford ample safeguards.

#### Prices and Profits

The report goes into the subject of prices at length, but a few quotations will suffice to give the facts in which the public is chiefly interested:

In 1913 the average mine price of stove anthracite was \$2.53 a gross ton; today the quotations are \$2.00 to \$2.35 a gross ton for "company" and \$2.50 to \$3.10 for "independent" coal.

Thus, in ten years both the retail and the wholesale prices of stove coal have practically doubled. This is in line with the general advance in commodity prices, except that while the wholesale price of metals, for instance, reached its peak in 1917, of chemicals in 1918, of farm products in 1919, and of other commodities in 1920—all with subsequent declines, usually large—the price of anthracite has continued steadily upward.

It is found that all the factors involved in mining costs contribute to the increase in mine prices. In the 10 years under review by the Commission's accounting staff, labor costs in the production of fresh-mined coal have risen from \$1.56 a gross ton in 1913 to \$4.12 in the first quarter of 1923, the cost of supplies from 35 to 71 cents, and general expenses from 22 to 32 cents. Labor cost bears about the same relation to total mine cost in 1923 (71.7%) as in 1913 (70%); supplies cost relatively less in 1923; and general expenses are relatively higher in 1923.

The total range in the average mine cost of a ton of coal with the nine railroad companies has been from \$2.23 in 1913 to \$6.75 in 1923. With three independent companies for which there are continuous cost records, the corresponding change has been from \$2.50 in 1913 to \$6.32 in 1923.

The mine cost as it stands on the books of each mining company and as reported by the company represents the average cost of the total output, all sizes of anthracite. Egg coal has for example at least five times the market value of barley, but these sizes are mined together and their costs cannot be separated.

The fact that a portion of the coal mined sells at less than cost is not always taken into account in statements about costs and prices

but the margin of profit on the domestic sizes is reduced by the loss on the sizes sold for steam-making purposes. The Commission touches upon this point and discusses average realization and the margin of profit as follows:

#### The Margin of Profit

The Commission has not completed its study of investment and therefore cannot yet state what the profits have been in terms of return on investment. It has completed a study of mine costs and sales realizations which throws some light on profits. Since only the sizes above pea sell at prices generally higher than the average cost of mining and the smallest sizes considerably below that cost, market prices give little clue to margins except as the operator's proportion of large or domestic sizes and small or steam sizes is known. However, the average sales realizations on all sizes have been reported and can be compared with average costs for the same companies over the series of years. For the 12 companies the average of these sales prices received ranged from \$2.63 in 1913 to \$6.78 in the first quarter of 1923. Distinguishing between the "railroad" companies, and the larger independents, the 9 railroad companies received for all sizes an average price 28 cents lower than that received by the 3 independents in 1913, and 89 cents lower in 1923. Part of the difference is due to the fact that two of the "railroad" companies turn their coal over to affiliated sales organizations at transfer prices considerably below circular, as is discussed more fully in the appendix.

The margin per ton between cost of production and net sales realization includes all the earnings from the mining of coal available for payments on account of capital, whether paid out in Federal taxes, as interest, as dividends, or reserved as surplus. The margin will not show return on investment until the amount of the investment is established, but it will indicate whether over a period of years profits are increasing. This margin is simply what capital, whatever its amount in the business, receives for services rendered in mining the average ton of coal, and thus the margin per ton as capital's wage is fairly comparable in nature with the wages paid per ton to the mine labor.

Measured by this margin per ton the anthracite operators are receiving much larger profits at present than they customarily did before the war. For the year 1913 nine "railroad" coal companies had an average margin of 34 cents a ton. In the first quarter of 1923 the same operators received a margin over reported costs of 93 cents a ton. But because of differences in accounting methods in respect to depletion and depreciation, these reported costs, although following the Treasury Department's requirements, are not strictly comparable with the costs as determined by the Federal Trade Commission for earlier years. To make them comparable it is necessary to deduct 14 cents from the costs as now reported, and add 14 cents to the margin.

The difference in accounting methods between the cost investigations of the Federal Trade Commission and the costs submitted to the Coal Commission by the operators will be discussed in detail in a special report on costs and profits. The difference in method does not invalidate comparison between costs of several operators when calculated by the same method. To compare costs as ascertained by one method with costs as ascertained by the other, however, requires the adjustment above noted. Thus, the average margin in the four years before the United States entered the war was 36 cents. In 1913, the average margin (adjusted) was 57 cents. In 1920 and 1921 it was 50 and 31 cents, the variations in these years representing in part movement of steam sizes into storage and out of storage to the market. During the suspension of 1922 the companies lost money heavily, but in the last three months of the year, their margin (adjusted) was \$1.05, or three times the pre-war figure.

Until the total earnings can be compared with the total investment, the public should withhold judgment as to the profits received by the anthracite

industry. It may be that judged by this standard, the margin obtained before the war was too small. If, on the other hand, the pre-war margin was adequate, the present margin may be unduly large, unless in the meantime there has been a marked increase in the investment. The task has proved so involved and far-reaching that the findings of the Commission on the subject of the profits of anthracite companies are reserved for a later report.

We have given this discussion of the margin of profit at length because here is the concrete exposition of the power and gains of this "monopoly" industry. In the four years preceding the war the big companies had an average margin of 36 cents per ton, less taxes, as compensation for investment, the risks of an industry not free from hazards, and the service rendered by their organizations to the public. This is what they had over and above what they disbursed to their employees and for expenses. This is the showing of monopoly power which is said to have made anthracite a luxury fuel.

The Anthracite Bureau of Information has responded to a request for a statement relative to profits in the last quarter of 1922 as follows:

The report of the Commission, it is true, does show increased margins per ton of production for the last quarter of 1922 and for the first quarter of 1923. This was due simply to the fact that production was pushed to the limit during those periods in order to make up as much as possible the deficiency caused by the strike and better realization was obtained for the steam sizes sold than is obtained under normal conditions. The increased production had, of course, the effect of reducing the overhead charges per ton. If the second quarter of 1923 had been included in the Commission's report, the results would have been very different, because of the fact that there was a decided slump during that period in the realization on the steam sizes.

You will note in Table 2, following page 18 of the Commission's report on "The Cost of Production of Anthracite Coal" that there was a loss of 28 cents a ton on the year's business in 1922, notwithstanding the increased margin in the last quarter of that year.

From this it appears that the increased profit to which the Commission has called attention was not due to higher prices, nor so far as can be judged now from any permanent condition, but resulted from an exceptional circumstance, the complete influence of which was to wipe out all profits for the year 1922.

#### The Question of Reasonable Profits

The question of what profits a business is "entitled" to make is not easily settled, for it usually leads into ethical speculations without boundaries or standards. In the business world it is customary to dispose of such questions by comparison with the usual return in other investments, and by considering what would be the probable result to the public of arbitrarily restricting the return upon capital in a given industry or business below the average return obtainable in other lines. In the long run a rule must be sound ethically which works out the best possible results to the community; otherwise what is the end of ethics?

The average return upon capital is determined by the supply of productive equipment as related to the demand for products. That is to say, if the demand for consumable goods presses upon the means of production, prices tend to rise and this creates a demand for more industrial equipment and the rate of compensation upon such investments tends to rise. This, and not the common folderol about the money supply, makes the interest rate. The compensation of capital, therefore, is not a matter that can be settled by theorizing, by joint debate, convention resolutions or the findings of a Commission, but is determined like other economic values in the market place.

#### Reasons for Higher Capital Returns

The war and disorganization of industry has depleted the capital supply, relatively if not actually, and available capital generally commands a higher rate. Wherever it is free to move it does so to take advantage of the opportunities offered, and although capital invested in a mine cannot be transferred to another investment, it would seem to be fair reasoning that its compensation should be judged from time to time by that received in other investments of like risks. Moreover, it is certain that new capital will not be added to that already invested in mining unless the rate of return corresponds to that obtainable elsewhere. Finally, throughout the business and industrial world there is recognition that the purchasing power of money has fallen and that every individual whose compensation in terms of money has not increased is worse off than before the war. The value of the dividends of these mining companies to their stockholders is in their purchasing power, just as the value of the wages paid to employees is in what they will buy.

The average of prices in 1922, according to the tables, has been about 60 per cent above the level of 1913, and if the mining companies should realize an average increase of 60 per cent upon the pre-war tonnage profit, it would give them 56 cents per ton. So far as can be calculated from the Commission's data, this would seem to be necessary to give them a real return equal to that which they received before the war.

According to the Report, as quoted above, the direct labor cost of producing a ton of coal had increased since 1913 from \$1.56 to \$4.12, before the recent wage increase was made.

#### Cost Differentials

The Commission gives considerable discussion to royalties and the fact that owing to differing natural conditions mining costs are lower in some mines than in others. It says:

From the reports of the Commission's examiners so far obtained it is not possible to generalize as to the average rate of profit on the aggregate investment in the anthracite industry. The Commission finds that some of the lower-cost companies have been extremely profitable and have paid very large dividends even though their sales prices have been relatively low. It has found other companies with higher costs whose rates of return have been small and which have paid small dividends or no dividends at all, but until the study of investment is completed, the evidence of dividend payments must be accepted as an indication rather than explicit proof of profits. In a number of important companies the outstanding capital stock represents but a small portion of the book value of the property.

In short, the Commission found about the same conditions as to costs and profits as prevail generally in industry, although in mining natural advantages or disadvantages are a more pronounced factor. We have found occasion often to emphasize the fact that the differences in profits realized by different concerns in the same business are due to different costs rather than to different selling prices. As a general rule, products of the same character and quality are sold in the same market at about the same prices. It seems that this is not uniformly true in the case of anthracite; there are differentials in price which the Report says "constitute some recognition of the right of the public to share in the advantage of the lowest concern," but these do not make the situation entirely satisfactory for various reasons noted, such as that the differentials are not as great as they ought to be, that when the producing company grants them they are not always passed on by dealers to consumers, that when they are passed on they cause all sorts of confusion and vexation, and the results are not equitable because one consumer gets them and another does not. The independent operator gets the highest prices, and the results of inequality are described as follows:

With coal leaving the different mines at two or more distinct price levels, one dealer in a community may be receiving coal at two or even three dollars a ton less than is paid for coal of the same quality by his competitors. In time of good demand the dealer who gets the lower-cost coal may allow his competitor who gets the high-cost coal to fix the price to the consumer, though often the practice of the dealer buying low-cost coal of adding the customary margin to his purchase price has been followed. This practice, however, results in widely different prices to different consumers for coal of similar quality, or in the equally vexatious advance in price to the same consumer later in the season if the dealer has to supplement his allotment of "company" coal with some "independent" coal. An extortionate retailer needs only to cite the premium price he has paid for a few carloads of independent coal as a screen behind which no local authority can well go, far less an individual customer.

#### Royalties

About one-third of the output of anthracite is mined under leases in which the operator pays the land-owner a royalty, ranging from 12 cents to \$1.50 per ton, the higher payments being on a percentage basis and resulting

from exceptionally high selling prices. The Report says:

Among the independent operators the great bulk of the output—at least 70 per cent—is produced from leaseholds under royalty. Among the "railroad" companies the great bulk of the output is produced from lands in fee. Royalties are therefore not an important item in the cost of producing "company" coal. They are an important element in the cost of producing "independent" coal.

Very much has been said and written about royalties in public discussion of the anthracite problem, and it has been commonly represented that they were an important factor in the prices of coal, and a particularly iniquitous feature of the situation. The Commission is "down on" royalties, but the facts given in the Report do not indicate that royalties have much to do with the price of coal. The principal producers have no royalties to pay, and they make the prices to which, in a general sense, all producers must conform. It is true that the independents get higher prices when they can but that is not because they have royalties to pay, for in some cases their royalties are the same whatever the selling price may be and where they are on a percentage basis the rise of the royalty charge follows the price.

As a matter of fact, it may be cheaper to pay royalties than to buy properties outright. The companies which acquired tracts of land long ago have had their capital locked up all these years, while the operators who pay royalties have had no such investment. In principle royalty is the same as rent, and economists are practically agreed that, fundamentally, rent is not a factor in prices. High rents are not the cause of high prices; on the contrary, the big sales and large profits that certain locations command are the basis of high rents. So the value of the coal produced from a certain tract of land depends upon location with reference to market conditions, condition of extraction with reference to the character of the vein, competitive position, etc., and not upon whether it is mined by the owner or on a royalty.

#### Vested Interests

The argument against royalties is really an argument against all private ownership in coal properties, and the Commission acts upon this view, for it links them together in suggesting the levy of a graded tax on royalties and differential profits. It says that this would not lower the price of coal, but would secure a public revenue without increasing the price of coal. Of course all land values could be wiped out by the same process, and there are a good many people who advocate doing it. It is easy to extend the policy of confiscation once it is begun, which is something to think about before beginning.



It might have been better if the anthracite lands had been retained or acquired by some public authority at the beginning of settlements in Pennsylvania, and likewise if the title to all the land on Manhattan Island had been kept in the state or municipality from the beginnings of settlement here. The fact is, however, that nothing was done in either case, and that down to this time private ownership has been the recognized and accepted policy, and that private rights have been established. The term "vested rights" is treated with a good deal of opprobrium in some quarters, except as individuals may have somehow acquired rights of that kind, but the principle that a person who acts on the strength of a public policy long maintained acquires certain rights is recognized in all civilized communities. The leading exponents in England of the proposal to nationalize the coal mines agree that compensation should be given.

In short, it is idle to talk about what policy should have been adopted toward these lands at the beginning. They have been private property since then; they have changed hands, some of them at higher prices than they would bring today if the interest value of the investment together with tax payments be reckoned. All the elements of value considered in this Report, such as the conditions which enable some properties to produce coal more cheaply than others and to command higher royalties, have been reckoned in selling values. Hence most of the discussion about the injustice involved in equal prices for coal of the same quality produced at varying costs is aimless and futile. If the state should condemn and buy the properties, by every principle of fundamental law it would have to pay more for the easily worked mines than for the others because they are more valuable than the others, and in many instances doubtless have cost the owners more.

#### Vague Theories

Such questions afford the opportunity for much theorizing, some of it very plausible, but not worth while for all it leads to. The Report with almost naive earnestness refers to some of the troubles that develop from putting coals of the same quality in the same market at the same time at different prices. The business world doesn't worry about such matters very much, because it knows that there are a great many rough approximations in the great volume of exchanges that make up the business of every day. They know too that under the free play of economic forces there are a great many adjustments and compensations which the theoretical critics do not always take into account.

There are a great many conditions in the present social organization that confessedly are not ideal. Nobody planned it as it is. It did not take shape under any control. It has developed loosely and very slowly, guided mainly by experience. Society refuses to be put into strait-jackets. People love liberty more than order, and will not have an ordered regime, laid out to eliminate all lost motion and waste. Proposals for fundamental changes generally fail of adoption, or if adopted fail to give the results promised. The private ownership of property has been maintained because on the whole it is been thought to produce the best results, not merely for the owners but for everybody. It is possible to argue that coal property is different from other property, but it was acquired in the same way, and the differences are not so great as sometimes represented. Furthermore, the machinery of government does not work with such a degree of certainty as to afford even reasonable expectation that it would be able to make all the adjustments theoretically conceivable.

#### Private vs. Government Ownership

It is worth something to know the worst that can happen even at the hands of such a monopoly as the anthracite "coal trust" has been represented to be. We have the showing of the report that in the settled period before the war, when for a number of years the industry was free from strikes or other unusual disturbances, the average margin of profit was 36 cents per ton, and that this, subject to taxes, was the total return upon the capital investment. If the government could get the mines for nothing, and manage them through public officials without additional cost or graft, without creating soft jobs for political henchmen, and with the same degree of interest and ability given by the owners, this is about the reduction in the price of coal that might be accomplished. The Commission refuses to entertain the idea of government ownership.

In contrast with the uncertainties attached to such a policy, consumers may consider how much trouble they are personally disposed to take to save 36 cents by buying coal early, or by some degree of co-operation in the cost of local distribution. The statements of the Commission indicate that prices in different cities having approximately the same freight rates from the mines show differences much greater than this sum.

There are many features of the report upon anthracite to which we would like to give attention, but want of space forbids. The report upon the bituminous industry is of greater importance, and we shall review it at another time.

### The European Situation

Events have moved rapidly in Germany of late, with every sign that the crisis long-feared and almost unaccountably postponed is near at hand. The policy of passive resistance in the Ruhr was abandoned, with an explanation from the Prime Minister to the country that the central government could no longer support it, and a formal surrender to the French Government. The depreciation of the currency had run its course until it was almost disqualified for use as a medium of exchange. Farmers refused to receive it for their products; nobody wanted it unless able to immediately pass it on for something of tangible value. Industry and all business, of course, were affected, increasing the amount of unemployment and leading to riotous demonstrations in many places. Government revenues, collected in the worthless currency, had become of insignificant consequence in meeting government expenses; the main reliance was in the efforts of the printing presses to turn out more currency fast enough to keep pace with its declining value.

The Reichstag, recognizing its own inability to cope with the situation, divided into parties and factions as it is, voted to suspend the constitution and give dictatorial powers to the Prime Minister. The significance of this may be gathered from the reply of the latter to an inquiry as to what the government would do if shooting began. He said: "We will shoot first." It was recognized by all that the time had arrived when divided counsels and uncertainty about the exercise of authority might mean anarchy. Policies were no longer so important as the maintenance of authority.

All pretence of sustaining the value of the mark or of using it as a measure of value in itself, were abandoned. A decree was issued making all taxes henceforth collectible at the gold rate of exchange, and plans have been under way for providing a new currency, secured by mortgages or other pledges. Undoubtedly the government appreciates the need of giving assurance of some relief from the intolerable conditions existing, but there is little reason for confidence that any reform of the currency can be accomplished without a settlement of the reparations question, and a foreign loan. With reparations settled, something like the plan adopted in Austria might be put into effect, but Germany will have no borrowing power until the reparations claims are definitely disposed of.

The relations between the central government and the constituent states, threatening a break-up of the nation, the intense antagonisms existing between the several political parties, and the general state of confusion and

disorder, all indicate that there has been no effective authority in Germany and no really national policy since the revolution. The country has been drifting, no political party or leadership having the power to formulate and carry out a constructive policy.

### America in a Conference

A new development has come in the last week in the invitation, participated in by all of the allies, for the United States to aid in a conference, by naming either an official or unofficial delegate. It will be recalled that last December Secretary Hughes, in an address at New Haven, offered the suggestion of international co-operation in arriving at a determination of Germany's ability to pay reparations and a plan therefor. The time was not ripe, for France had determined to fortify her position by the movement into the Ruhr. Recently, however, the British Government, seizing upon a statement by President Coolidge to the effect that the United States was desirous of giving aid in any practical way, directed an inquiry to Secretary Hughes as to whether this government would accept an invitation from all the allies to participate in such a conference as he had proposed.

The reply of Secretary Hughes was highly significant in several respects. He said in part:

It is believed that present conditions make it imperative that a suitable financial plan should be evolved to prevent economic disaster in Europe, the consequences of which would be world-wide. It is hoped that existing circumstances are propitious for the consideration of such a plan, inasmuch as the abandonment of resistance on the part of the German government will present a freer opportunity and an immediate necessity for establishing an economic program. The government of the United States is therefore entirely willing to take part in an economic conference in which all the European allies chiefly concerned in German reparations for the purpose of considering the questions of the capacity of Germany to make reparation payments and an appropriate financial plan for securing such payments.

He then proceeded to say that the United States had no desire to see Germany relieved of her obligations, but that in the effort to attain the end in view "regard must be had to the capacity of Germany to pay and to the fundamental condition of Germany's recuperation without which reparation payments will be impossible."

### Reservation As to Debts

He added that "such a conference should be advisory; not for the purpose of binding governments who would naturally be unwilling to pledge their acceptance in advance, but to assure appropriate recommendations by a thoroughly informed and impartial body intent upon the solution of the difficult pending problems upon their merits."

He then goes on to lay down one condition particularly affecting the United States, to-wit, that the subject of the indebtedness of European governments to the government of the United States shall not be taken up. In doing so he repeats from his New Haven address the reasons why they could not be with propriety considered.

The matter is plain enough from our standpoint. The capacity of Germany to pay is not at all affected by any indebtedness of any of the allies to us. That indebtedness does not diminish Germany's capacity, and its removal would not increase her capacity. For example, if France had been able to finance her part in the war without borrowing at all from us, that is, by taxation and internal loans, the problem of what Germany could pay would be exactly the same. Moreover, so far as the debtors to the United States are concerned, they have unsettled credit balances, and their condition and capacity to pay cannot be properly determined until the amount that can be realized on these credits for reparations has been determined.

The administration must also consider the difficulty arising from the fact that the question of these obligations which we hold, and what shall be done with them, is not a question within the province of the executive. Not only may Congress deal with public property of this sort but it has dealt with it. It has created a commission and instead of giving that commission broad powers such as the administration proposed, which quite apart from cancellation might permit a sound discretion to be exercised in accordance with the facts elicited, Congress has placed definite restrictions upon the power of the commission in providing for the refunding of these debts.

He does not leave the matter there, however, but adds a paragraph which gives some basis for hope that this country may make concessions upon the indebtedness, if such are found to be necessary for the restoration of order and prosperity in Europe. He says:

It is hardly necessary to add, as it has frequently been stated by the government of the United States, that while the American people do not favor cancellation of the debts of the allies to the United States or of the transfer to the people of the United States of the burden of Germany's obligations, directly or indirectly the government of the United States has no desire to be oppressive or to refuse to make reasonable settlements as to time and terms of payment, in full consideration of the circumstances of the allied debtors. It may be added that the establishment of sound economic conditions in Europe, the serious reduction of military outlays, and the demonstration of a disposition of European peoples to work together to achieve the aims of peace and justice will not fail to have their proper influence upon American thought and purpose in connection with such adjustments.

This is not a promise, and the Secretary of State has made it clear that no authority short of the Congress possesses authority to make a promise, but we believe it to be a safe assumption that the government and the people of the United States have no desire to be oppressive or to refuse to make reasonable settlements as to time and terms of payment, in full consideration of the circumstances of the allied debtors.

#### Interests of the United States

The United States is greatly interested in its own behalf in the settlement of the repara-

tions questions and in getting world trade back upon a normal basis. While it is strictly true that the indebtedness to the United States Government should not be a factor one way or the other in determining Germany's ability to pay reparations, it is undeniably true that the inability of Germany to reimburse France for her heavy expenditures in the devastated districts would affect the latter's ability to discharge her debt to the United States. And the same reasoning would apply to the other allies indebted to this country. The Secretary gives recognition of this, and indicates that the United States may be expected to take it into account.

It is true furthermore that this country never yet has seriously considered all that is involved in the collection of this indebtedness. It is safe to say that few of our people have reflected upon the difference between ordinary payments upon indebtedness between residents of the same country and payments of huge sums from one country to another. In its position as creditor this country is in a like position to that of the allies seeking to collect reparations from Germany. In a recent speech Prime Minister Baldwin of Great Britain pointed out that Germany must have exports not only large enough to cover every reparation payment, but must first have exports enough to pay its necessary imports. He said:

"We have to remember," he said, "that whatever those reparations are, be the amount great or be it small, those reparations can only be paid by the trade balance of Germany. That is, by her balance of exports. Moreover, as Germany lost under the peace treaty much territory from which she used to draw food and raw materials, she must import substitutes and must export more to pay for these. So, when we do get reparations they can only come out of an enormously increased export trade, and if German reparations are to stand at some such figures as 100, 125, or 150 million pounds sterling a year, the kind of figure that has been envisaged, you have got to remember that every pound of that has been needed in the purchase of increased food and imports and has to be exported somewhere.

"The question is, where are these exports going? Which makes me think that sometimes in international indebtedness it is not wholly beneficial necessarily to be a creditor. Now, I believe theoretically, in fact I may say I am sure that theoretically, in the course of time matters would adjust themselves. They would adjust themselves more swiftly if there had been in the world such growth of world trade as occurred, for instance, at the time of the great gold discovery, but there is little sign of that today. And if there be not sufficient expansion of world trade to absorb this surplus of exports quickly these exports will come to be a detriment to every industrial country in the world. The chief industrial country is ours. The country with the most open markets is ours, and we shall be the shock absorbers for the whole world."

In the same speech Mr. Baldwin gave notice that if there was any danger that the accumulated stocks of the Ruhr might be dumped on the British markets, he "had no doubt that Parliament, whatever party may be in power, whatever pledges may be given, will take steps to see that no trading of that kind is allowed."



#### The Situation Abnormal

We gave a month or two ago a cable message telling of the protest of British farmers against the sale of German potatoes in the London market. Sentiment in France is the same and it would quickly develop in this country if it became evident that goods from Great Britain or any of the allied countries were coming into this country in such quantities as to lessen the demand for our own products. The question is not the same as that presented in the ordinary arguments over protection and free trade. Believers in both these doctrines alike recognize that the worst difficulties arise from constantly changing policies. Stability is more important than anything else. Indebtedness arising in normal trade presents no serious difficulties, but these debts did not arise from normal trade, and present a problem wholly different from that presented by an ordinary trade balance. A great influx of goods to pay them would disorganize our own industries. The instincts of business men in this respect are sound, but in acting in accordance with them this country is placed in the position of insisting upon the payment of immense sums and at the same time refusing to take them in the only way in which they can be paid. This is not to say that the debts should be cancelled outright, but simply that they present a very complex problem, and that this country may well study the mutual interests involved.

#### Danger in Delay

The promise, now assured of realization, that a conference will be held with new parties present, is encouraging, but there is danger in delay. Although Germany is now using foreign money to a great extent and basing all calculations upon gold values, it is difficult to see how business can proceed upon the scale necessary to keep the working people employed in the present state of uncertainty. Germany has surrendered, so far as the Ruhr controversy is concerned, and has offered in advance to abide by the decision of the conference. Of course no agreement amounts to anything unless it is possible of being carried out, and it is evident that something like normal financial and industrial conditions must be re-established in Germany before reparations payments can be resumed on any scale of importance.

There is little time for an intensive original study of German resources, but that should not be necessary. Given time for Germany to reform her currency and balance her budget, she probably will be able to produce quite as much as other countries will be ready to receive from her. It must not be overlooked that there is a real problem in finding mar-

kets for goods upon the scale of reparation payments that has been in contemplation.

#### British Economic Conference

A conference of the premiers of the British dominions has been holding sessions in London during the past month, for the consideration of subjects of mutual interest. The three broad questions announced in advance were Empire Settlement, Financial Co-operation and Imperial Preference. The premiers of Canada, Australia, New Zealand, South Africa and Newfoundland were present, the Minister for Industry and Commerce of the Irish Free State, several representatives for India, and the Under-Secretary in London for the Crown Colonies. The Premier of Great Britain of course has been in attendance and the president of the Board of Trade. The latter is reported as opening the conference with a speech in which he set forth various ways in which the several parts of the empire might co-operate for their mutual advantage.

He said that the resources of the British Empire were as great as those of the United States, and suggested that Great Britain and the Dominions together were capable of realizing a development comparable with that which had been seen in America. That development, he thought, would come, in any case, in the fullness of time, but he pressed that it should be anticipated. By a bold and business-like policy of accelerating the development of the Empire and its resources, he contended, they would find immediate relief in present difficulties and bring about a greater and quicker increase in the wealth and strength of all parts of the Empire.

Mr. Bruce, the Prime Minister of Australia, made a long speech advocating in strong terms imperial preference, and particularly urging a policy by which the agricultural and meat products and raw materials of the dominions would have a first chance in the markets of Great Britain after the home production. Mr. Bruce has been the outstanding advocate of this policy, which is one to which there is very pronounced opposition in England. The old Liberal Party will not hear to it and the Labor Party is vigorously against it. On the other hand, the farmers of England are clamorous for protection, and are able to accept the Bruce proposal, as it would give them first claim on the market. Agricultural unrest is as rampant in England as in the United States or anywhere else.

The present government in Great Britain went in under a pledge not to make any material change in the tariff policy. It has, however, submitted to the conference a statement of its intention to diminish in some cases and take off entirely certain duties upon dried fruits in which some of the dominions are in-

interested, leaving the duties still in force in their application to imports from outside the dominions. Also of an undertaking that a certain preference in favor of sugar produced in the dominions will be continued for ten years. These are not very large contributions, judged on the scale of Mr. Bruce's proposals.

#### The Canadian Attitude

Mr. Mackenzie-King, Prime Minister of Canada, while stating that Canada is admitting British products by a preference of about one-third, and manifesting a positive desire to co-operate in helpful relations, is quite pronounced and candid in his position that Canada is very much of a nation all by herself, and wants to be quite free to manage their own affairs. Apparently while ready to co-operate he does not want any binding agreements or any overhead authority. In a speech at Toronto before leaving Canada for London, he indicated the position he expected to take, by saying:

I have thought it well to say little, as Canada has no question to raise. We do not desire any change in our constitutional relations with Great Britain or with the other British Dominions. We are satisfied with the present position and do not think that this is the time to raise new issues.

Speaking before the Canadian Club in London, he is quoted as follows:

Referring to the halibut fisheries treaty between the United States and Canada, Premier Mackenzie King argued that the agreement was of concern only to those two countries and that in having it signed by the Canadian Minister of Fisheries there had not been the slightest intention to show any discourtesy to the British Ambassador at Washington. He then continued:

"We feel that so far as domestic affairs are concerned we have full right to self-government. We feel that in regard to matters of trade and tariff we have the right to negotiate with our neighbors or with any country. It did not take away from the prestige of the British Crown that a Canadian Minister should have authority from the Crown to sign with a plenipotentiary power on a matter that related exclusively to his own country."

Where, however, other parts of the empire were concerned, Mr. King agreed that no one unit should take any steps without the full concurrence and consent of the others. When a question of high politics was involved, he said, it would be adding to the prestige of the empire to see that the signature was representative of the empire as a whole.

#### The Union of South Africa

The Cape Town correspondent of the London Times in a letter to that journal about the departure of General Smuts for the conference, said:

General Smuts goes to the Conference to insist that Dominion status must be recognized as a reality, and that there must be no attempt to go back on it. He and his followers in South Africa believe that the one thing which can make dissolution of the Empire possible—even inevitable—is any attempt to insist on the "parental control" of Great Britain.

The representatives of India contributed to the discussion on imperial preference a statement that India had embarked on a policy of industrial development and wished to reserve the privilege of providing such protection as was deemed advisable.

The general range of discussion has indicated that the British population in all the dominions is thoroughly loyal in sentiment to the mother country, but more intensely loyal to their own countries and intending as a rule to consider first their own interests.

#### British Manufacturers

The Federation of British Industries, an organization of manufacturers in Great Britain, has submitted to the home government a report recently adopted upon the subject of trade within the empire which is pertinent to the proceedings of the conference. It says:

They [the Federation] deprecate the tendency in certain quarters today to adopt the attitude that the economic difficulties of this country can be entirely solved by rapid and considerable development of trade with the Dominions, and that in Empire markets will be found the means of restoring trade lost in other parts of the world. On the evidence of trade statistics alone, they hold such an assumption is untenable.

For instance, British export figures show that the ratio of Imperial to foreign trade has remained practically constant over the period 1913-1932. Thus the total United Kingdom exports in 1932 were 68.9 per cent. of the pre-war figure: the total exports to the Empire being 70 per cent. of pre-war, as against a total for foreign countries of 68.2 per cent. They point out that many of our existing manufactures being intended for a white population in a state of high civilization it is useless to expect that the relatively small white population of the Empire, however high its individual purchasing capacity per head, can take the place of our European markets as consumers of British goods in any near future.

The Federation are driven to the conclusion that a full development of inter-Imperial trade is to a large extent dependent upon the restoration of normal conditions in other parts of the world, which in the past have been large purchasers from the Dominions; in other words, that the Empire cannot be taken as a separate entity or a self-contained unit, but that its trade is internationally interdependent; and that, for instance, until Europe has made some progress towards recovery the volume of inter-Imperial trade cannot be expected to grow as rapidly as is desired.

The proposal for imperial preference is offered at an opportune time, for Great Britain is suffering so much in her home market from the competition of continental countries with depreciated currencies that there is strong sentiment in favor of the principle of protection, which of course must be put into effect before any preference can be given in the British market.

Prime Minister Baldwin in a recent speech startled political circles by saying:

If we go pottering along as we are we shall have grave unemployment with us to the end of time, and I have come to the conclusion myself that the only way of fighting this subject is by protecting the home market. I am not a clever man. I know nothing of political tactics. But I will say this: That, having come to that conclusion myself, I felt the only honest and right thing as leader of a democratic party was to tell them at the first opportunity what I thought, and submit it to their judgments.

It is certain, however, that the government will not attempt to use its present majority to carry out such a purpose, but would feel obligated by the platform on which it came into power a year ago to hold another election first.

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